THE PRICE SUPPORT PROGRAM

The price support program dates back to 1933, when the Commodity Credit Corporation (CCC) first supported prices of corn and cotton. Passage of the Agricultural Adjustment Act of 1938, which made support mandatory for certain commodities, increased the importance of price support in stabilizing prices of farm commodities. During World War II and the Korean War, the program was used to encourage increased agricultural output by minimizing price risks. In recent years, heavy production of many supported crops has put pressure on market prices, making greatly expanded support activity necessary.

Administration

Current price support operations are financed by CCC. A price support program must be approved by the Board of Directors, CCC, and the Secretary of Agriculture. Administration of CCC price support programs, however, is a responsibility of the Agricultural Stabilization and Conservation Service (ASCS).

Proposals for price support usually are prepared by ASCS commodity divisions in the form of a docket -- an outline covering such matters as total funds required, proposed method of support, the average level of support, conditions of eligibility, the geographic area and the period for which support will be available, basic operating provisions, and an authorization for ASCS to carry out the program under the general direction and supervision of the president or executive vice president of CCC, in accordance with bylaws of CCC. When the program is approved, a public announcement is made -- usually a press release -- and detailed operating instructions are sent to personnel in charge of administering the program in Washington and the field.

Price support operations in the field involving direct dealings with farmers are a responsibility of State and county Agricultural Stabilization and Conservation (ASC) committees. The State and county ASC committees also are responsible for local administration of acreage allotment, marketing quota, Soil Bank, storage, agricultural conservation, Sugar Act, and related programs.

The State committee consists of three to five farmer members appointed by the Secretary of Agriculture, plus the State director of the Agricultural Extension Service. County committeemen are elected annually by the farmers of the county. The county agricultural agent is also a member of the committee. County ASC committees function under the general supervision of the State committee.

The county ASCS office, generally located at the county seat, is the farmer's local point of contact in the case of most supported commodities. For example, county office personnel assist the farmer in the preparation of price support documents; check his eligibility for price support -- adequacy of farm storage facilities, compliance with farm acreage allotments, and the like; and keep him informed of program details. (In the case of tobacco, peanuts, gum naval stores, and, to some extent, cotton and soybeans, cooperative marketing associations handle certain phases of the program. Price support of dairy products is handled through purchases from the commercial trade by the Cincinnati and Portland ASCS Commodity Offices.)

The seven ASCS commodity offices (Cincinnati, Dallas, Evanston (Ill.), Kansas City, Minneapolis, New Orleans, and Portland (Oreg.)) have a prominent role in administering field phases of price support and related programs, handling nearly all post-farm operations with respect to loans, purchases, movement, storage, sales, export financing, and accounting.

Commodities Supported

Price support is mandatory for some commodities; that is, the law directs the Secretary of Agriculture to support prices of certain named commodities and specifies the ranges within which the support levels must be established. Support for all other commodities is permissive; that is, discretionary with the Secretary.

MANDATORY COMMODITIES

In 1962, support is mandatory for wheat, cotton (both upland and extra long staple), rice, tobacco, and peanuts -- the acreage allotment-marketing quota commodities. Support also is mandatory for corn and for oats, rye, barley, grain sorghums (feed grains related to corn) and for tung nuts, honey, milk, and butterfat. Support is mandatory, furthermore, for wool and mohair -- the National Wool Act commodities.

PERMISSIVE COMMODITIES

Support -- permissive for other commodities -- is also available in 1962 for cottonseed, flaxseed, soybeans, dry edible beans, and gum naval stores.

How Prices are Supported

Prices are supported in four different ways -- loans, purchase agreements, purchases, and payments. Loans and purchases constitute by far the most important support methods. Of the $3,321,619,000 in price support extended on 1961 crops through June 30, 1962, loans accounted for $2,629,738,000 (76 percent) and purchases for $518,085,000 (16 percent).

LOANS

Loans support prices in two major ways: (1) By providing farmers a cash return for the commodity at the support level; and (2) by strengthening market prices of the commodity through withdrawal of supplies from the market.

The loan method of support gives the farmer an opportunity either to market his crop or keep it under loan, whichever course is more advantageous. If the market price rises above the loan level, plus charges, he has the privilege of paying off the loan and selling his commodity in the open market. If the price fails to rise above the loan level, however, the nonrecourse character of the loan agreement makes it possible for him to deliver his commodity to CCC instead of repaying the loan.

The loan program tends to even out marketings. Farmers are inclined to market their crops at harvest time, which sometimes makes for market gluts, undue burdening of the transportation system, and lower prices. The loan program gives farmers an opportunity to hold their crops without risk for later marketing. That tends to spread marketing over the season, and thereby reduces the extent of price swings.

Price support loans have been available in recent years on all supported commodities except dairy products, tung nuts, wool, and mohair.

General loan procedures for specific commodities or groups of commodities are as follows:

Grain (including rice), oil seeds, dry edible beans, and honey. -- The farmer applies for a loan on a supported commodity at the county ASCS office. In the case of wheat or rice, if acreage allotments or marketing quotas are in effect for the commodity, the committee first of all makes sure that the farmer is eligible; that is, in compliance with allotments for his farm.

If the commodity is farm-stored, a field inspector checks farm bins and cribs to make sure they are providing safe storage, measures the quantity stored, takes a sample of the commodity for grade analysis, and puts a seal on the bin or crib. If the farmer's commodity meets all requirements, the committee makes out a note and a chattel mortgage. After signing these documents, the farmer may obtain his loan from a lending agency approved by CCC (usually a local bank) or, through the committee, directly from CCC.

The farmer may repay his loan any time before it becomes due. Price-support loans are nonrecourse, however; that is, a borrower may turn over to CCC the collateral put up against the loan instead of repaying the loan. For example, the producer who obtains a price support loan on 1,000 bushels of wheat may, instead of repaying his loan, notify the county ASCS office

that he will turn his wheat over to CCC. Delivery of 1,000 bushels of wheat of a quality equal to that placed under loan discharges his obligation to CCC in full.

On loans that are redeemed, an interest rate of $3\frac{1}{2}$ percent per year is charged for the period the loan is in effect. No interest is charged when a loan is not repaid and the commodity is delivered to satisfy a loan. In such cases, CCC pays any interest charges that might be due a lending agency.

Cotton, upland[1/] and extra long staple. -- The producer delivers his ginned fiber to a warehouse approved by CCC and obtains a warehouse receipt, or, if warehouse space is not available and arrangements can be made with railroads and others, a bill of lading in lieu of a warehouse receipt. But to obtain a loan, he must be in compliance with any cotton acreage allotment established for his farm -- and he must have his cotton classed by a board of cotton examiners of the Department of Agriculture. The board, after classing samples of the cotton, sends the producer a form indicating the class; that is, the grade and staple length. The producer is assisted by an approved clerk in the preparation of a note and loan agreement form. He presents the loan agreement form, together with the warehouse receipt or bill of lading, to the lending agency or directly to CCC, and receives the loan.

Producer members of a cooperative marketing association obtain loans through the association at the same rate and in much the same manner as through lending agencies. The association may then tender to CCC documents covering the cotton acquired as collateral from producer members, and receive a loan on that cotton from CCC.

Producers also may obtain loans on farm-stored cotton, although very few loans of this type are made and then, generally, only when there is a shortage of commercial warehouse space. The loan procedure for farm-stored cotton is very similar to that for grain. The county ASCS office arranges for inspecting storage facilities and aiding the producer in completing loan documents. The loan is evidenced by a note, which is secured by a chattel mortgage covering the cotton. With the note and mortgage, the producer obtains his loan from a lending agency or CCC.

In disposing of loan cotton, the producer has three choices open to him (provided he has not obtained his loan as a member of a cooperative marketing association):

- - - - - - - - - - -

1/ For the 1959 and 1960 crops of upland cotton, only cotton produced in compliance with Choice "B" acreage allotments was eligible for CCC price support loans. Price support for Choice "A" producers was made available through CCC purchases. Beginning with the 1961 crop, loans were again available on all eligible cotton, since legal authority for "A" and "B" acreage allotments was limited to the 1959 and 1960 crops.

1. He may sell his equity in the cotton under loan, the equity representing the difference between the amount due on the loan and the value of the cotton. In selling the equity, the producer signs an equity transfer in the presence of a witness authorized by the county ASCS office to witness such transactions. The buyer of the equity must present the equity transfer within 15 days and must repay the loan against the cotton within 5 business days after the warehouse receipts are received by the bank designated by the equity purchaser to receive repayment of the CCC loan; otherwise title to the cotton reverts to the producer. Practically all producers who redeem cotton under loan do so by means of the equity transfer.

2. He may repay his loan and sell the cotton in the open market.

3. He may choose not to repay the loan and not to redeem the cotton, inasmuch as his loan from CCC is nonrecourse.

Peanuts. -- Eligible producers obtain price support in two ways:

1. The producer delivers his peanuts to a warehouse having a storage contract with a grower cooperative association or with CCC. The association operates under a loan agreement with CCC. In delivering peanuts, the producer appoints the association his agent to handle and market the peanuts on his behalf, or to pledge the peanuts to CCC as security for a loan to the association, with the understanding that his right to redeem or obtain possession of the peanuts ceases at the time they are delivered to the warehouse. The warehouseman, as agent of the association, prepares a draft in favor of the producer for the loan advance value of the peanuts. The advance value is price support less a flat deduction, per ton, to cover the cost of inspection, warehousing, and association loan expenses to the loan maturity date. The draft, drawn on a lending agency approved by CCC, may be cashed or credited to the producer's account at any commercial bank.

2. Loans also are available to producers on farm-stored peanuts through the county ASCS office. If the producer's peanuts and storage facilities meet CCC's requirements, this office makes out the necessary loan documents. As in the case of grain loans, the producer obtains his peanut loan from an approved lending agency or from CCC. The producer may deliver the peanuts to CCC upon maturity of the loan or he may redeem the peanuts by repaying the amount of the loan plus interest and charges.

Tung oil. -- Tung producers obtain price support through warehouse loans on tung oil and purchase agreements on tung oil or tung nuts. Price support operations are primarily carried out through loans on oil because of the relatively high perishability of tung nuts. Under the program, producers haul their tung nuts to a crushing mill where the oil is extracted on a custom basis, the grower retaining title to the oil. Producers receive warehouse receipts for the oil, which generally is stored in tanks at the crushing mill. The warehouse receipts serve as collateral for loans from CCC through county ASCS offices or from lending agencies.

Gum naval stores. -- The producer obtains his loan on rosin, or rosin content in oleoresin (crude pine gum), through the American Turpentine Farmers Association Cooperative (ATFA), which conducts the field administration of the support program under an overall loan agreement with CCC. To be eligible for price support, the producer must have followed approved conservation practices.

Usually the producer delivers his oleoresin to an approved processing plant-warehouse location, fills out certain required forms, and pays charges, such as processing fees (including cost of rosin drums), initial storage fee, and Federal inspection fee. The loan papers are transmitted by the warehousemen to ATFA. After checking producer and collateral eligibility, ATFA sends the loan papers to the ASCS commodity office at Dallas for audit, custody, and payment to the producer or his payee.

The time within which loans are available expires December 31. However, producer redemption rights extend to the following July 1, at which time the loan matures, if payment is not demanded earlier by CCC. After maturity, CCC may sell the collateral. Any sum remaining after application of the sales proceeds to the satisfaction of total cumulative loan indebtedness under current and prior programs is returned to ATFA for disposition to its producer-member program participants, or for and in behalf of its members, on an equitable basis, as determined by ATFA with the approval of CCC.

Tobacco. -- Producers may obtain advances on tobacco at the price support level through 1 of the 17 producer cooperative associations of the continental United States and Puerto Rico. The associations, under their contract with CCC, handle all operations connected with making advances to producers on tobacco. These operations of the associations are financed by loans to the associations by CCC through banks acting as servicing agents for the CCC. The funds thus made available are used to make advances to producers (generally through auction warehouses) and to reimburse carriers, redrying plants, and storage warehouses for services performed on behalf of the associations. Administrative expenses of the associations, also financed by CCC loans to the extent that the service charges collected from producers (generally a minimum of 12 cents per 100 pounds) fail to cover expenses, are subject to budget approval by CCC.

In areas where tobacco is sold at auction, the producer trucks his cured tobacco to an auction warehouse. There it is weighed, identified by a warehouse sales ticket, segregated in baskets -- lots or piles, and displayed on the auction floor. A Government tobacco inspector grades the tobacco in each basket and marks the grade on the warehouse sales ticket. At the time of sale the tobacco is auctioned to the highest bidder. If the high bid for any particular basket does not exceed the loan rate -- the published rate for that grade -- that basket is consigned to loan, provided the producer has been issued a within-quota marketing card by his county ASCS office.

After the sale is completed the producer is paid for his tobacco, including payment for all tobacco that went under loan. The farmer is also given a participation record covering the quantity of the tobacco that went under loan. A copy of the participation record goes to the association, together with the auction warehouseman's billing for the day's operations.

The loan tobacco accumulated by the association during the day is trucked to the plant of a redrier or a packer under contract with the association. There the tobacco is segregated by grade and packed in hogsheads. Following this the redrier or packer sends a report to the association showing the quantity of loan tobacco received from each auction warehouse. The association matches the redrier's or the packer's report with the warehouseman's billing and draws a check to the warehouseman for the total day's business. The packer transports the packed hogshead to a storage warehouse where warehouse receipts are issued in favor of the association.

Over a period of time the tobacco placed under loan by the association usually is marketed by the association on the basis of prices established jointly by CCC and the association. When all the tobacco is sold, net gains, if any, are distributed by the association to producers. The distribution of net gains is determined by the participation record prepared at the warehouse at the time the producer's tobacco was consigned to loan.

The procedure for obtaining advances on cigar leaf tobacco is essentially the same as for other types with the exception that cigar leaf tobacco is not sold at auction. The producer delivers his tobacco to a warehouse or assembly point maintained by the association and receives his advance on the basis of a United States grade certification.

PURCHASE AGREEMENTS

A purchase agreement is, as the expression indicates, an agreement on the part of CCC to purchase from a producer at his option not more than a stipulated quantity of a commodity at the support price. Purchase agreements were available in 1962 on wheat, rice, corn, tung nuts, tung oil, honey, barley, sorghum grain, oats, rye, soybeans, dry edible beans, and flaxseed.

A producer obtains a purchase agreement through his ASCS county office by signing a document specifying the maximum amount of the commodity he may elect to sell to CCC. CCC agrees to purchase at the applicable rate -- which is equal to the loan rate -- any quantity of an eligible-quality commodity the producer elects to sell, up to and including the maximum quantity covered by the agreement. For example, a producer may sign a purchase agreement covering 5,000 bushels of corn. He may, if he so elects, sell no corn to CCC or he may sell any quantity up to and including 5,000 bushels. But after specifying that 5,000 bushels is the maximum quantity he might sell under his agreement, he may not sell more to CCC.

The producer must, within a specified 30-day period, declare his intention to sell under the purchase agreement. If loans as well as purchase agreements are available, the declaration period is generally the 30 days prior to the maturity of the loan. In any case, CCC will not purchase commodities covered by agreements prior to the end of the 30-day declaration period. If the commodity is stored in an approved warehouse, the producer turns over to the ASCS county office warehouse receipts representing the quantity of the commodity he elects to sell. If the commodity is stored in other than approved warehouse storage, the producer notifies the ASCS county office of his intention to sell and, after the issuance of delivery instructions, makes delivery to the place designated by the office within 15 days unless more time is granted him.

Loans and purchase agreements provide support at exactly the same level. A loan suits the needs of the producer who requires money immediately and who can meet loan storage requirements. A purchase agreement, on the other hand, provides a convenient, inexpensive form of price insurance for the producer who does not have an immediate need for cash or who is not able to meet loan storage requirements or who is not willing to encumber his commodity as is required under a loan operation.

PURCHASES

Prices of butterfat and manufacturing milk are supported through purchases of butter, cheddar cheese, and nonfat dry milk from manufacturers and handlers by ASCS commodity offices. Cottonseed prices are supported by direct purchases from ginners, and also from producers whenever nonparticipation by ginners makes such purchases necessary. Flaxseed prices also are supported, in part, by direct purchases from producers in certain designated counties in Texas.

Milk producers, except as members of cooperatives, do not deal directly with the Government in connection with the support program for manufacturing milk and butterfat. Purchases of butter, cheese, and nonfat dry milk by the ASCS commodity offices maintain the overall dairy product price structure, the support level to milk producers being reflected in prices paid by milk handlers and manufacturers. In the case of cottonseed and flaxseed prices, producers deal with the Government through ASCS county offices.

PAYMENTS

The payment method of support, authorized by the National Wool Act, may be used only for shorn wool, pulled wool (the wool removed from the carcasses of slaughtered sheep and lambs), and mohair.

Payments on domestic production of shorn wool are called "incentive payments," because Congress, in enacting the payment type of program, declared it a policy "to encourage the annual domestic production of approximately 300,000,000 pounds of shorn wool, grease basis * * *"

Although the National Wool Act authorizes support of mohair prices, market prices were high enough in the first seven marketing years under the Act to make actual support operations unnecessary.

Shorn wool. -- Under the program a grower sells his shorn wool in normal marketing channels, obtaining, at the time he sells, a sales document describing the transaction. The sales document and an application for payment are filed with the grower's ASCS county office. Payments are made to producers by the county office as rapidly as possible after the rate of payment is determined at the end of the marketing year.

The rate of payment is based on the difference between a previously announced incentive price and the United States average price received by producers for wool sold during the marketing year. For example, the announced incentive price for the 1961 marketing year was 62 cents a pound for shorn wool. Growers actually received an average price of 42.9 cents. To bring actual prices to the incentive level, the U. S. Department of Agriculture made payments, amounting to 44.5 percent of producers' sales returns, which had the effect of raising average U. S. wool prices to growers to the 62-cent incentive level.

Obviously, the higher the price obtained in the open market, the higher the payment. For example, the producer who sold his wool at an average price of 50 cents a pound got a payment of 22.25 cents a pound, whereas the producer who marketed "tags" at 20 cents a pound got a payment of only 8.9 cents a pound.

Pulled wool. -- Prices of pulled wool are supported by payments based on the live weight of lambs marketed. In addition to supporting prices, the payments are designed to discourage unusual shearing of lambs prior to marketing.

Each producer who sells unshorn lambs is eligible for a payment, provided he has owned the animals for 30 days or more. Payment to each producer is made on the weight or weight increase of the animals occurring during the producer's ownership. The original producer, for example, is eligible for a payment based on the full live weight of the animals at the time he sells them. Each subsequent owner is eligible for a payment only on that portion of the weight produced during his ownership.

Payments to producers who buy unshorn lambs and later shear them are subject to a downward adjustment when the producers apply for shorn wool incentive payments. The downward adjustment is the amount of the lamb payment that the previous owner was eligible to receive.

The lamb payment rate is computed as follows:

(1) The difference is calculated between the incentive price for shorn wool and the average price received by farmers. For the 1961 marketing

year, the incentive price was 62 cents, and the average price received by producers was 42.9 cents, making the difference 19.1 cents. (2) 80 percent of this difference is derived, which works out at 15.3 cents. The 80-percent differential traces to the fact that pulled wool is normally of coarser grade and shorter staple length than shorn wool. (3) The derived figure of 15.3 cents is multiplied by 5, which gives 76 cents -- the 1961 lamb payment. The 5-pound figure used as a multiplier is an average weight of wool per hundredweight of live animal.

Mohair. -- If it becomes necessary to carry on actual support operations for mohair, the support method used will be the same as is used for shorn wool.

SUPPORT LEVELS

The level of support directed or authorized by price support legislation is almost always expressed in terms of a formula. Usually it is expressed as a percentage (or within some percentage range) of the parity price for the commodity at the beginning of its marketing year.

This means that until the formula can be computed, the Department, too, in order to announce the level of support in advance of planting time must express the support in the percentage terms of the formula. Later, when the required statistics become available and the formula can actually be computed, the level of support is re-expressed in terms of dollars-and-cents.

A digest of current price support legislation follows:

ACREAGE ALLOTMENT-MARKETING QUOTA COMMODITIES (SUPPORT IS MANDATORY)

Wheat. -- Under continuing legislation which applied to 1961 and earlier crops, support was made available to cooperators in the commercial wheat area (if they had not disapproved marketing quotas) at not more than 90 percent nor less than 75 percent of the parity price at the beginning of the new marketing year, the precise minimum level depending on the relationship of the total supply of the commodity to its normal supply. In any State designated as outside the commercial wheat area, the level of support for wheat was 75 percent of the level to cooperators in the commercial area.

Under emergency legislation for the 1962 crop, support was made available at the same levels as under the earlier continuing legislation but support was limited to cooperators in the commercial wheat-producing area who diverted 10 percent of their normal wheat acreage allotment to conservation uses.

Under emergency legislation for the 1963 wheat crop, price support again is limited to cooperators (those who stay within their acreage allotments) in the commercial wheat-producing area, and is made available on two bases: (1) at a national average of $2.00 per bushel to cooperators who are participating in a diversion program under which part of the cooperator's acreage

of wheat is diverted to conserving uses, and (2) at a national average of $1.82 per bushel to cooperators who are not participating in the diversion program.

Permanent legislation provides for a stabilization program, effective with the 1964 wheat crop if approved by producers in a referendum, under which price support in a 65 to 90 percent of parity range would be available to cooperating producers, with support limited, however, to production needed for domestic food use and exports.

Rice. -- If quotas have not been disapproved, price support must be made available to cooperators at a maximum of 90 percent of the parity price for all crop-years and at not less than 70 percent for the 1961 crop, and not less than 65 percent for 1962 and subsequent crops.

Peanuts. -- If quotas have not been disapproved, price support must be made available to cooperators at a level ranging from 75 to 90 percent of parity, the precise minimum level depending on the relationship of the total supply of the commodity to its normal supply. If producers have disapproved quotas, the level of support is 50 percent of the parity price.

Upland Cotton. -- If marketing quotas have not been disapproved, support must be made available to cooperators in 1961 and subsequent years at not more than 90 percent of parity nor less than the following minimums: 70 percent in 1961 and 65 percent in subsequent years. If producers have disapproved quotas, support to cooperators is at 50 percent of parity.

For their 1959 crops, upland cotton producers were given a choice between support at 80 percent of parity under Choice "A" acreage allotments (the regular allotments) and 65 percent of parity under Choice "B" allotments (the regular allotments plus 40 percent). They had a similar choice for their 1960 crop, with Choice "A" support set at not less than 75 percent of parity and Choice "B" support set 15 percent of parity below the "A" level.

Extra Long Staple Cotton. -- If marketing quotas have not been disapproved, support must be made available to cooperators at not less than 60 percent and not more than 75 percent of parity. If quotas have been disapproved, support to cooperators is at 50 percent of parity.

Tobacco. -- When marketing quotas have not been disapproved, support must be made available to cooperators at 90 percent of the 1959 parity price as adjusted by a 3-year moving average of the cost of things that farmers buy in relation to such costs in 1959. If quotas have been disapproved, no support is available.

NATIONAL WOOL ACT COMMODITIES (SUPPORT IS MANDATORY)

Shorn wool. -- Support is required at the incentive level which the Secretary determines is necessary to encourage an annual domestic production of approximately 300 million pounds of shorn wool. That level, however, must not exceed 110 percent of parity, and the total amount of payments (cumulative) is limited to 70 percent of the receipts from duties on imported wool and wool manufactures since January 1, 1953.

Pulled wool. -- Prices of pulled wool are to be supported at such a level in relationship to the level for shorn wool as will maintain normal marketing practices.

Mohair. -- Support prices for mohair may deviate from the support price for shorn wool by as much as 15 percent above or below the comparable percentage of parity at which prices of shorn wool are supported.

OTHER MANDATORY-SUPPORT COMMODITIES

Corn and other feed grains. -- Under emergency legislation for the 1962 and 1963 crops of corn, price support is available "at such level not less than 65 per centum of the parity price as the Secretary may determine." Support is limited to production at average yields and for grain sorghums and barley as well as corn is conditioned on participation by the producer in a special agricultural conservation program.

Beginning with the 1964 crop, under permanent provisions of the Agricultural Act of 1949 as amended by the Food and Agriculture Act of 1962, price support must be made available to producers "for each crop of corn at such level, not less than 50 per centum or more than 90 per centum of the parity price therefor, as the Secretary determines will not result in increasing Commodity Credit Corporation stocks of corn."

Support must be made available to producers of oats, rye, barley, and grain sorghums at such percentage of the parity price for each as the Secretary of Agriculture determines to be fair and reasonable in relation to the support price announced for corn.

Milk and butterfat. -- Support must be made available at the level (not more than 90 nor less than 75 percent of parity as of the beginning of the marketing year) which the Secretary finds to be necessary to assure an adequate supply.

Honey and tung nuts. -- Support must be made available at not more than 90 nor less than 60 percent of parity as of the beginning of the marketing year.

PERMISSIVE-SUPPORT COMMODITIES

Other commodities supported in recent years include cottonseed, flaxseed, soybeans, dry edible beans, and crude pine gum.

Support on these or any other agricultural commodity is permissive at any level not in excess of 90 percent of parity. In determining whether support shall be undertaken and the level of support, the Secretary must consider factors set forth in section 401 (b) of the Agricultural Act of 1949. These factors are: (1) The supply of the commodity in relation to the demand therefor; (2) levels at which prices of other commodities are being supported and, in the case of feed grains, the feed values of such grains in relation to corn; (3) the availability of funds; (4) the perishability of the commodity; (5) the importance of the commodity to agriculture and the national economy; (6) the ability to dispose of stocks acquired through price-support operations; (7) the need for offsetting temporary losses of export markets; and (8) the ability and willingness of producers to keep supplies in line with demand.

For all commodities for which support is mandatory these eight factors also must be considered in determining whether the level of support should be in excess of the minimum level prescribed for the commodity.

FORWARD PRICING

Dollars-and-cents price-support levels are announced as early in advance of the planting or marketing season as possible to permit producers to plan their production and marketing operations.

This forward-pricing policy is set forth in section 406, Agricultural Act of 1949, which stipulates that "the Secretary shall * * * announce the level of price support for field crops in advance of the planting season and for other agricultural commodities in advance of the beginning of the marketing year or season (January 1 in the case of commodities not marketed on a marketing year or season basis) * * *."

Section 406, Agricultural Act of 1949, also provides that forward prices may be raised but not reduced.

For example, the Department of Agriculture announced in April 1957 that the support level of 1958-crop wheat would be not less than $1.78 per bushel or 75 percent of parity as of July 1, 1958, whichever was higher. As it turned out, 75 percent of parity as of July 1, 1958 (the beginning of the marketing year) indicated a support price of $1.82 a bushel, and the revised, higher support price was announced officially. But if 75 percent of parity had indicated a support price of $1.75, the support price would have been kept at $1.78.

Price-support levels for 1962 crops were as follows: Wheat, $2.00 per bu.; corn, $1.20 per bu.; cotton, upland (average quality), 31.88 cents per lb.--extra long staple, 53.17 cents per lb.; peanuts, $221.40 per ton; rice, $4.71 per cwt.; tobacco -- flue-cured, 56.1 cents per lb.; burley, 57.8 cents per lb.; fire-cured, 39.2 cents per lb.; dark air-cured and Virginia sun-cured, 34.8 cents per lb.; cigar binder, 40.0 cents per lb.; and cigar filler and binder, 28.9 cents per lb.; butterfat, 57.2 cents per lb.; milk for manufacturing, $3.11 per cwt.; wool, 62 cents per lb.; mohair, 74 cents per lb.; honey, 11.2 cents per lb.; tung nuts, $63.34 per ton; barley, 93 cents per bu.; grain sorghums, $1.93 per cwt.; oats, 62 cents per bu.; rye, $1.02 per bu.; cottonseed, $48 per ton; flaxseed, $2.90 per bu.; soybeans, $2.25 per bu.; dry edible beans, $6.32 per cwt.; crude pine gum, $29.98 per bbl.

SUPPORT AT LEVELS ABOVE 90 PERCENT OF PARITY

Section 402, Agricultural Act of 1949, authorizes support above 90 percent of parity if the Secretary determines, after a public hearing, that increased price support is needed to prevent or alleviate a shortage of a commodity essential to the national welfare or to increase or maintain the production of a commodity in the interest of national security.

The National Wool Act authorizes incentive prices for shorn wool up to and including 110 percent of the parity price; and support prices of mohair, which may vary as much as 15 percent above or below the comparable percent-of-parity wool incentive level, may be set higher than 90 percent.

SUPPORT PRICES REFLECT LOCATION, QUALITY, AND TYPE

The national average support price is broken down, for operating purposes, to reflect location, quality, or type differentials. This policy is in accord with section 403, Agricultural Act of 1949, which provides that "appropriate adjustments may be made in the support price for any commodity for differences in grade, type, staple, quality, location, and other factors. Such adjustments shall, so far as practicable, be made in such manner that the average support price for such commodity will, on the basis of the anticipated incidence of such factors, be equal to the level of support determined as provided in this Act."

The National Wool Act of 1954 permits the Secretary of Agriculture, in determining support prices and rates of payment, to make adjustments in such prices or rates for differences in grade, quality, type, location, and other factors to the extent he deems practicable and desirable.

WHY MARKET PRICES MAY BE LESS THAN SUPPORT PRICES

Prices of supported commodities sometimes drop below support levels. There are several reasons for this:

If all producers of a supported commodity participated in the program to support prices of that commodity, the price of the commodity obviously

would be equal to or higher than the support level. Failure to participate in the program, then, is the major reason that market prices of some supported commodities sometimes drop below the support level.

Some of the reasons why producers are unable to participate or elect not to participate, in the price-support program are as follows:

(a) Lack of adequate storage -- both farm and warehouse -- is an important factor in producers' ability to take part in the program.

To obtain a price-support loan, a producer must store in facilities approved by CCC -- either privately owned or commercial space. Producers participating through purchase agreements need not store in approved facilities, but they still need safe storage for their commodities during the period the commodities must be held prior to sale to the Government.

Many producers, including share tenants, lack adequate farm storage. To obtain support, these producers must store part or all of their commodities in commercial warehouses. Where space is not available in commercial elevators -- as sometimes happens during periods of peak marketings or overall storage shortages -- producers must sell their commodities at the best prices obtainable. If such marketings reach sizable volume they tend to depress prices.

(b) Quality. -- The crop may not be of good storing quality, and commercial warehousemen may refuse to accept it for storage. Thus a producer must elect either to run the risk of both quality deterioration and shrinkage by storing the commodity on his farm, or selling at the market price. Where storage space is scarce, warehousemen may be even more reluctant to handle grain of questionable storability, which further aggravates the problem.

(c) Potential gain. -- The quantity of a commodity owned by a particular producer may not be large enough to encourage his participation in the program.

(d) Inconvenience. -- If supplies are considered ample and there is little prospect of a price increase during the loan period, producers may be reluctant to undertake the paper work involved in completing a storage loan, or run the risks of loss of quality. In such circumstances, they are willing to sell in the open market at prices slightly below the loan level.

(e) Disagreement with price support. -- Not all producers agree with the concept of price support. To the extent that this group may be significant in any marketing area, prices in that area may be held down by their failure to take part in the support programs.

(f) Sales by nonfarmers. -- Only an eligible producer -- that is, any legal entity producing the commodity of the crop being supported, as landowner, landlord, tenant, or sharecropper -- can obtain price support. From time to time at the end of the marketing season or over the course of a full marketing season, considerable quantities of a commodity may be owned by nonproducer groups. Such noneligible interests may sell stocks in a weak or falling market in order to minimize or stop their losses. Such operations depress prices even more.

- - - - - - -